
**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

FINANCIAL STATEMENTS

DECEMBER 31, 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

7/21/10



Postlethwaite
& Netterville

A Professional Accounting Corporation

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FINANCIAL STATEMENTS

DECEMBER 31, 2009

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-5
 <u>Financial Statements</u>	
Statements of Net Assets	6-7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Basic Financial Statements	10-18
 <u>Supplemental Information</u>	
Combining Statements of Net Assets	19
Combining Statements of Revenues, Expenses and Changes in Net Assets	20
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	21-22

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority

We have audited the accompanying statements of net assets of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 - 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 25, 2010, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The combining statements included on pages 19 and 20 are presented for the purposes of additional analysis and are not a required part of the basic financial statements rather than to present the financial position and results of operations of the individual funds. The combining statements have been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Postlethwaite & Nettville

Baton Rouge, Louisiana
May 25, 2010

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) presents a narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2009 and 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

On August 1, 2006 the Authority issued revenue bonds series 2006 totaling \$223,705,000, the proceeds of which were used to finance the prepayment of natural gas purchases for a term of 10 years and the related project costs for certain participating municipalities. All activity for this project is referred to and accounted for as the LMNGA Gas Project No. 1 (the Project) which is issued and secured under a trust indenture. The Authority's traditional gas purchase and sale activity with members is referred to as the Requirements Gas Fund. The activities and financial position of the Authority are presented in these financial statements while the separate activities of the Requirements Gas Fund and LMNGA Gas Project No. 1 are presented separately as supplemental information on pages 19 and 20.

- The LMNGA Gas Project No. 1 is structured such that the bond proceeds were used to purchase the delivery of specific natural gas quantities at fixed prices over the 10 year term of the Project. The Project also entered into a commodity swap agreement to effectively convert the price to be paid for the delivery of natural gas for a fixed price to a market index based price. The purpose of the Project is to enable members participating in the Project to purchase natural gas at a discount of the otherwise market index based prices.
- The assets of the Authority exceeded its liabilities at December 31, 2009 by \$3,083,041 compared to \$2,554,564 as of December 31, 2008, which is a 21% increase over the previous year. Increase in net assets result primarily from the current year operations of the Project as it is designed to accumulate excess revenues in the initial years which are to be utilized to meet cash flow needs in later years.
- At December 31, 2009, the Authority's assets totaled \$170,873,580 which consisted primarily of prepaid gas purchases, accounts receivable and investments, as compared to a balance of \$195,680,781 at December 31, 2008. This decrease directly relates to utilization of the prepaid natural gas for LMNGA Gas Project No. 1 as discussed below.
- The Requirements Gas Fund purchases and resells gas to members under short term purchase commitments or based on current market prices. The Requirements Gas Fund total gas purchases and sales were \$21,063,440 and \$33,386,726 during the years ended December 31, 2009 and 2008, respectively. Decrease from the prior year is primarily a result of the decrease in market based natural gas prices during 2009.
- Gas sales for the LMNGA Gas Project No. 1 were \$23,670,513, and are comprised of \$8,827,023 of income recognized on the commodity swap accretion of the prepaid gas purchase asset and \$14,843,490 of gas sales, for the year ended December 31, 2009. In the prior year, gas sales for the Project were \$38,124,977, comprised of \$10,032,543 recognized on the swap accretion and \$28,092,434 of gas sales. These sales figures are netted in the operating revenues by \$711,005 and \$733,096 of discounts given to participants in the prepay program for the years ended December 31, 2009 and 2008, respectively.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Authority report information about the Authority using accounting methods similar to those used by the private sector. The Authority's financial statements include its activity in the Requirements Gas Fund and the activity of the Project. The Statements of Net Assets include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the years' revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Authority's operations over the year and can be used to determine whether the Authority has successfully recovered all its costs through its operating revenue, profitability and credit worthiness. The final required basic financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Authority's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Financial Analysis of the Authority

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Authority is in a better financial position as a result of the year's activities. These statements report the net assets of the Authority and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Authority's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Total assets	\$ 170,873,580	\$ 195,680,781
Total liabilities	<u>167,790,539</u>	<u>193,126,217</u>
Net assets	<u>\$ 3,083,041</u>	<u>\$ 2,554,564</u>

At December 31, 2009, the Authority's assets consist primarily of prepaid gas purchases, investments, and accounts receivable from member municipalities throughout Louisiana. At December 31, 2009, accounts receivable decreased by 35.5% from the prior year due to decreased prices compared to December of the prior year offset by higher volume. A similar decrease in accounts payable for gas purchases was experienced in the end of 2009. The financial structure of the Project is intended to accumulate excess revenues (net assets) in the initial years which are to be utilized to meet expected cash flow needs in later years of the Project.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Overview of the Financial Statements (continued)

The Authority had debt outstanding of \$161,510,000 at December 31, 2009 and \$184,666,000 at December 31, 2008 consisting primarily of revenue bonds related to the Project. A small portion of these borrowings were under short-term lines of credit and used to fund working capital needs during high demand periods which have decreased as a result of decreased gas prices in the current year. There were no borrowings as of December 31, 2009. Repayment of principal and interest on the revenue bonds related to Gas Project No. 1 began in August, 2007 and scheduled to continue through August, 2016.

Condensed Statements of Revenues and Expenses for the Years Ended December 31,:

	<u>2009</u>	<u>2008</u>
Operating revenues and interest income	\$ 45,411,358	\$ 72,351,584
Operating expenses	<u>44,882,881</u>	<u>71,597,591</u>
Change in net assets	<u>\$ 528,477</u>	<u>\$ 753,993</u>

The Authority experienced an excess of revenues over expenses in 2009 and 2008. During the year ended December 31, 2009, the Authority reported operating revenues and interest income of \$45,411,358 which reflected revenue from both the LMNGA Gas Project No. 1 Fund and the Requirements Gas Fund. The Authority reported total expenses \$44,882,881, which consist primarily of the cost of natural gas purchased from vendors and interest expense.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Authority's finances, as well as demonstrate accountability for funds the Authority receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Natural Gas Purchasing and Distribution Authority, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

**STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008**

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 202,390	\$ 135,617
Accounts receivable, net	8,346,499	10,548,629
Investments, at fair value	7,268,115	7,632,488
Accrued interest receivable	80,995	57,136
Prepaid insurance	10,106	10,534
Prepaid natural gas purchases, current portion	21,978,723	22,049,626
Total current assets	<u>37,886,828</u>	<u>40,434,030</u>
Other assets:		
Investments, restricted, at fair value	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	932,977	1,214,251
Prepaid natural gas purchases	130,448,617	152,427,342
Total other assets	<u>132,986,752</u>	<u>155,246,751</u>
Total assets	<u><u>\$ 170,873,580</u></u>	<u><u>\$ 195,680,781</u></u>

The accompanying notes are an integral part of these basic financial statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities:		
Accounts payable and other liabilities	\$ 3,240,785	\$ 4,987,019
Interest payable	3,039,754	3,473,198
Lines of credit	-	126,000
Bonds payable, current portion	<u>22,730,000</u>	<u>23,030,000</u>
Total current liabilities	<u>29,010,539</u>	<u>31,616,217</u>
Long-term liabilities:		
Bonds payable	<u>138,780,000</u>	<u>161,510,000</u>
Total liabilities	<u>167,790,539</u>	<u>193,126,217</u>
Net assets - unrestricted	492,413	532,880
Net assets - restricted bond indentures	<u>2,590,628</u>	<u>2,021,684</u>
Total net assets	<u>3,083,041</u>	<u>2,554,564</u>
Total liabilities and net assets	<u><u>\$ 170,873,580</u></u>	<u><u>\$ 195,680,781</u></u>

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Gas sales	\$ 44,733,953	\$ 71,511,703
Membership dues	605,174	640,527
Legal fees billed	67,242	182,284
Late charges	11,898	12,591
Less: prepay/member discount	<u>(711,005)</u>	<u>(733,096)</u>
Total operating revenues	<u>44,707,262</u>	<u>71,614,009</u>
Operating expenses:		
Cost of natural gas	35,895,709	61,479,160
Purchase agent fee	403,450	413,814
Management fee	168,104	172,423
Interest expense	8,187,570	9,288,798
Legal and professional fees	81,039	175,802
Bad debt expense	74,660	-
Miscellaneous expenses	<u>72,349</u>	<u>67,594</u>
Total operating expenses	<u>44,882,881</u>	<u>71,597,591</u>
Operating income	<u>(175,619)</u>	<u>16,418</u>
Other revenues:		
Interest income	<u>704,096</u>	<u>737,575</u>
Change in net assets	528,477	753,993
Net assets, beginning of year	<u>2,554,564</u>	<u>1,800,571</u>
Net assets, end of year	<u><u>\$ 3,083,041</u></u>	<u><u>\$ 2,554,564</u></u>

The accompanying notes are an integral part of these basic financial statements.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<u>Cash flows from operating activities:</u>		
Operating income	\$ (175,619)	\$ 16,418
Amortization of deferred financing costs, included in interest expense	281,274	319,524
Amortization of prepaid gas purchases	22,049,628	22,703,080
Bad debt	74,660	-
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in accounts receivable	2,127,898	(1,709,702)
Change in prepaid expenses	-	(468)
Change in accounts payable and other liabilities	(1,746,234)	1,712,793
Change in interest payable	(433,444)	(452,509)
Net cash provided by operating activities	<u>22,178,163</u>	<u>22,589,136</u>
<u>Cash flows from investing activities:</u>		
Purchase of investments	364,373	479,172
Interest income received	680,237	717,921
Net cash provided by provided by investing activities	<u>1,044,610</u>	<u>1,197,093</u>
<u>Cash flows from financing activities:</u>		
Payments on bonds payable	(23,030,000)	(24,030,000)
Net change in lines of credit	(126,000)	126,000
Net cash used in financing activities	<u>(23,156,000)</u>	<u>(23,904,000)</u>
Net change in cash	66,773	(117,771)
Cash, beginning of year	<u>135,617</u>	<u>253,388</u>
Cash, end of year	<u>\$ 202,390</u>	<u>\$ 135,617</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid for interest	<u>\$ 7,882,437</u>	<u>\$ 8,949,620</u>

The accompanying notes are an integral part of these basic financial statements.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority or LMNGA) is a quasi-public corporation and an instrumentality of the State of Louisiana, created on November 23, 1987 pursuant to La. R.S. 33:4546.1 et seq. for the purpose of purchasing and distributing natural gas to participating municipalities and political subdivisions.

On August 1, 2006, the Authority entered into the LMNGA Gas Project No. 1, whereby the Authority acquired natural gas supplies for participating municipalities utilizing a commodities swap transaction for a period of ten years in order to supply a portion of the natural gas purchases to participating municipalities at fixed prices. In conjunction with this transaction, the gas supplies were purchased with the proceeds of the \$223,705,000 from the LMNGA Revenue Bonds, Series 2006.

(a) *Basis of Accounting*

The Authority's LMNGA Gas Project No. 1 Fund as well as the Requirements Gas Fund are considered to be proprietary type funds and are combined and presented as a single business type activity.

As a *proprietary fund*, the Authority's operations are accounted for using a flow of economic resources, measurement focus and the accrual basis of accounting. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of operating income and changes in net assets is necessary or useful to sound financial administration. Under this method of accounting, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The operating statements present increases (revenues) and decreases (expenses) in net assets. The Authority maintains two proprietary funds, which are enterprise funds. These funds are maintained separately as a result of the requirements of the bond indenture.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Program applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

(b) *Allowance for Uncollectible Accounts*

Management of the Authority assesses the status and collectability of accounts receivable and believes all accounts receivable are collectible based upon favorable history over a substantial period of time; therefore, an allowance for uncollectible accounts has not been provided.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Deferred Financing Costs*

Deferred financing costs represent various costs incurred in conjunction with the issuance of the 2006 Revenue Bonds. These costs are deferred and amortized over the life of the indebtedness based upon the principal amounts of the bonds outstanding, which approximates the interest method.

(d) *Investments*

Under the provisions of the LMNGA Gas Project No. 1, the Authority is required to establish and maintain certain reserve accounts. In accordance with the Indenture of Trust between the Authority and its Trustee, portions of these reserve accounts can be temporarily invested in guaranteed interest contracts. Investments are classified as current and long-term resulting from payment requirements stated in the bond indenture.

Provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, permits the recording of guaranteed interest contracts at cost if the contributions are non-participating. Non-participating contracts are those non-negotiable and non-transferable and redeemable at contract or stated value rather than fair value based on current market rates. All of the Authority's investment contracts are non-participating and are therefore reported at cost, which are deemed to approximate fair value.

(e) *Prepaid Gas Purchases*

Prepaid natural gas purchases represent a ten year supply contract for natural gas beginning August 1, 2006, which was purchased for participating members to be sold to such members in accordance with gas sales contracts. These original purchases consisted of approximately 30,000,000 MMBtu (one million British Thermal Units) of natural gas and were purchased through a commodities transaction. These natural gas purchases are valued and recorded at cost less amortization for the value of deliveries of gas volumes in the accompanying statements of net assets. The cost of this contract is capitalized and amortized ratably based upon deliveries of contractual volumes and unit prices of future gas supply arrangements.

(f) *Purchase Agent Fee*

The Authority has two contracts with a gas management firm to act as the exclusive agent to purchase natural gas for the Authority for the Requirements Fund. The contracts are for a five (5) and ten (10) year period, which expires April 30, 2013 and July 30, 2016, respectively.

(g) *Management Fee*

The Authority contracts with the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA provides the Authority an Executive Director and other personnel necessary to carry out the functions of the Authority and its membership. The Authority's Board of Directors and Executive Committee administer and establish policies for the management of the Authority. For the years ended December 31, 2009 and 2008, amounts paid to LMA by the Authority related to this management fee totaled \$168,104 and \$172,423, respectively. The agreement is for a five (5) year period ending April 30, 2013.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(i) *Revenues*

For the Requirements Gas Fund, the Authority purchases natural gas for its members and bills them for the cost of the gas plus a fee per unit of natural gas purchased. This fee comprises the Authority's membership dues. Accordingly, receivables from the members and payables to the vendors are generated when gas is delivered into the respective pipelines. The membership dues collected from members are allocated entirely to pay the aforementioned purchase agent and management fees and other operating costs of the Authority.

For the LMNGA Gas Project No. 1 Fund, the Authority bills participating members monthly based upon gas sales contracts entered into with each member for the ten year period which the project covers.

(j) *Operating / Non-Operating Revenue and Expenses*

Operating revenues consist of gas sales, membership dues, legal fees billed and late charges assessed as these revenues are generated from the Authority's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Interest income and other revenues and expenses which are ancillary to the Authority's statutory purpose are classified as non-operating.

(k) *Income Taxes*

The Authority is exempt from income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(l) *Derivatives*

In conjunction with the LMNGA as Project No. 1, the Authority has entered into two derivative contracts, including an interest rate swap which serves to essentially fix the rate of interest on the variable rate bonds, as well as a commodity prices hedge to convert the price of gas quantities acquired under a commodities purchase agreement from a fixed price to a variable market indexed-based price. In accordance with current GASB standards, no related assets or liabilities are recorded in the basic financial statements, but the estimated fair market values are disclosed in the accompanying notes to the basic financial statements.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

For reporting purposes, cash and cash equivalents include cash on hand, demand deposits, unrestricted money market accounts and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

Custodial Credit risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are held by the custodial bank as an agent for the Authority, in the Authority's name, and are thereby not exposed to custodial credit risk.

Pursuant to Louisiana Revised Statute of 1950, as amended, the Authority may invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities that are guaranteed by the U.S. Government or U.S. Government Agencies, repurchase agreements, certificates of deposit as provided by the statute mentioned above, and other investments as determined by the terms of bond trust indentures.

Concentration of Credit Risk. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. At December 31, 2009 primarily all investments are consist of guaranteed investment contracts and are with a single issuer.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the estimated fair value of an investment. Investments are primarily composed of guaranteed interest contracts and therefore minimal exposure to interest rate risk.

During 2006 the Authority established certain reserve funds in connection with LMNGA Gas Project No. 1 as stipulated in the related contractual agreements. These reserves are pledged as collateral for all bond related payments, including principal and interest payments due each bond year which ends each July 31. These funds are restricted for their stated purpose by the bond indenture agreements.

As of December 31, 2009 and 2008, the Authority had the following investments:

	2009 Estimated <u>Fair Value</u>	2008 Estimated <u>Fair Value</u>
Money market accounts	\$ 30,513	\$ 21,616
Guaranteed Investment Contracts issued by JPMorgan Chase		
5.163% Due 7/30/16	7,237,602	7,610,872
5.086% Due 7/30/16	<u>1,605,158</u>	<u>1,605,158</u>
Total	<u>\$ 8,873,273</u>	<u>\$ 9,237,646</u>

The guaranteed investment contracts (GIC's) are unsecured contracts which cannot be sold or traded. Redemption of these investments depends solely on the financial condition of JPMorgan Chase which provides the contracts, and its ability to honor their obligations. According to the terms of the bond indenture, the Authority is required to maintain certain account balances in a reserve account which have therefore been classified in the accompanying basic financial statements as restricted assets.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

3. PREPAID NATURAL GAS PURCHASES

In an effort to reduce the fluctuations and variability of natural gas supply and prices to its members, the Authority developed the Prepaid Gas Program (LMNGA Gas Project No. 1). Under the Program, the Authority has entered into natural gas supply agreements with participating Louisiana municipalities (the Participants) whereby the participants will purchase minimum natural gas volumes from the Program over a 10 year period. The Authority has also entered into a commodity price hedge agreement with a commodity counterparty for the same 10 year term to effectively convert the gas purchased by the Authority under the prepaid gas supply agreement from a fixed price basis to a market indexed-based price. In order to fulfill these minimum member purchase commitments, on August 1, 2006 the Authority entered into a Purchase Agreement, with JPMorgan Ventures Energy Corporation, and several related contracts, to procure contractually agreed-upon natural gas volumes at fixed prices over a term of ten years. JPMorgan Chase also guarantees the performance obligation under the Purchase Agreement. The Authority has converted the price of natural gas under the Purchase Agreement to an index-based price by entering into a commodity price hedge with BNP Paribas for a period equal to that of the Purchase Agreement. This commodity swap agreement is intended to reduce the Authority's, and ultimately participating municipalities', exposure to fluctuations in price of natural gas over the term of the Program. See note 4.

The natural gas Purchase Agreement was entered into at inception of the Program for a total \$218,371,000 for the purchase of approximately 30 million MMBtu of natural gas. These purchases were funded by bonds issued by the Authority which are described in Note 5. The cost of the gas purchase agreement is charged to cost of natural gas in the financial statements as natural gas is delivered in accordance with terms of the agreement. For the years ended December 31, 2009 and 2008, included in the cost of natural gas expense in the statement of revenues, expenses and changes in net assets as a component of the cost of gas was \$22 million and \$22.7 million, respectively, related to the utilization amortization of the prepaid gas purchase. As of December 31, 2009, prepaid gas purchases to be delivered within 12 months are considered to be current assets totaling \$21,978,723 and gas deliveries due beyond one year totaled \$130,448,617.

4. PURCHASE COMMITMENTS AND SIGNIFICANT RISK CONCENTRATIONS

In order to convert the price of natural gas acquired pursuant to the above mentioned Purchase Agreement from a fixed price to a market-index based price, the Authority entered into the commodity price hedge for identical gas quantities and term of the prepaid gas purchase agreement. The fair value of the outstanding derivative at December 31, 2009 and 2008 is estimated to be an asset of approximately \$31 million and \$26 million, respectively. The impact of executing the derivative agreement coupled with the effect on the natural gas asset results in an overall impact to the prepaid natural gas asset basis approximating fair value.

The prepaid gas purchase agreement and swap agreement exposes the Authority to credit risk, in the event the counterparties are unable to fulfill their obligation. The commodity swap agreement requires collateral to be posted in varying amounts depending on the counterparty's credit rating. As of December 31, 2009, the counterparty was rated as Aa2 according to Moody's and AA according to Standard & Poor's and therefore no collateral has been required to date under the terms of the existing agreements. Management continues to evaluate the counterparty credit risk and associated collateral requirements as well as potential credit deterioration in all financial institutions due to overall economic conditions.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

4. PURCHASE COMMITMENTS AND SIGNIFICANT RISK CONCENTRATIONS (continued)

On August 1, 2006, in conjunction with the LMNGA Gas Project No. 1, as discussed in Note 3, the Authority also entered into a Purchase Agreement for purchase and sale of natural gas. Related to this program, the Authority has entered into corresponding gas supply contracts with certain participating members to purchase natural gas from the Authority in volumes corresponding to the Authority's Purchase Agreement commitment.

The Authority has entered into significant agreements for which it is dependent on the performance counterparties to meet their contractual obligations. The Authority has entered into guaranteed investment contracts and with JP Morgan Chase for a long-term prepaid natural gas supply contracts with JP Morgan Ventures Energy Corporation whose performance is also guaranteed by JP Morgan Chase. The Authority has also entered into a commodity price hedge agreement with BNP Paribas Bank over the same term of the prepaid gas program.

For the Requirements Gas Fund, the Authority routinely enters into short-term gas purchase commitments with various vendors in the ordinary course of business. The purchase commitments usually include the volume of gas to be purchased and the purchase price of these volumes. The Requirements Gas Fund bills its members based on the actual cost of gas incurred. During 2009, the Requirements Gas Fund purchased approximately 66% of its gas purchases from two vendors which individually comprised purchases of 44% and 22%, respectively. During 2008, the Requirements Gas Fund purchased approximately 35% of its gas purchases from one vendor.

During 2008, the U.S. and global financial and credit markets experienced significant downturns and disruptions which significantly impacted the financial services industries to the previously described agreements with counterparties. Management continually monitors the financial condition of the counterparties and believes the counterparties have the ability to meet their obligations under the respective agreements. The inability of any counterparty to perform under their contractual obligations would have significant adverse financial and operational impacts on the Authority.

5. BONDS PAYABLE

On August 1, 2006, the Authority issued revenue bonds in the amount of \$223,705,000 with an initial term of ten years related to the LMNGA Gas Project No. 1 (See Note 3). The revenue bonds do not constitute a debt, liability, or moral obligation of the State of Louisiana or any political subdivision thereof and are limited obligations of the Authority, payable only from the income, revenues and receipts derived from the sale of the prepaid natural gas supply, the interest rate swap agreement, the commodity hedge agreement, and other investments held under and pursuant to the trust indentures.

The assets generated with the proceeds of these bonds are pledged as collateral for the payment of principal and interest on the bond indebtedness of only the Project. The ability of the Project to meet the debt service requirements on the bonds is dependent upon the ability of the members participating in the Project to generate sufficient funds to purchase their respective contractual volumes of natural gas pursuant to the respective supply agreements.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

5. BONDS PAYABLE

The Authority has entered into interest rate swap Agreement with JPMorgan Chase Bank to reduce its interest rate risk by effectively fixing the interest rate to be incurred by the Authority over the terms of the bond (see note 4). Under this agreement, the Authority pays the counterparty interest payments based upon a fixed interest rate of 4.467%, while the counterparty makes payments to the Authority based on a floating rate of interest. The intention of the swap agreement was to effectively change the bond's variable interest rate to a synthetic fixed rate of 4.517%, excluding other fees associated with the bonds. Additionally, the Authority pays the counterparty a fee equal to .05% per annum of bonds outstanding. Under the terms of the swap agreement effective August 1, 2006, the Authority pays a fixed rate of 4.517% and the swap counterparty will pay a variable rate based upon the SIFMA, formerly USD-BMA, Municipal Swap Index plus .49% which was 0.74% and 1.39% at December 31, 2009 and 2008, respectively. The cost of this swap agreement is included in interest expense.

As of December 31, 2009, accrued interest payable on the bonds was \$3,039,754 and \$3,473,198, respectively. For the years ended December 31, 2009 and 2008, interest expense related to these bonds was \$8,184,681 and \$9,288,591, respectively. Interest expense includes the amortization of deferred financing costs of \$281,274 and \$319,524 for the years ended December 31, 2009 and 2008, respectively. Interest and principal payments are payable semiannually on each February 1 and August 1. The maximum interest rate due on the bonds is 8%. The bonds mature August 1, 2016 and are subject to redemption and mandatory sinking fund redemptions.

At December 31, 2009 and 2008, Louisiana Municipal Natural Gas Purchasing and Distribution Authority Revenue Bonds outstanding were as follows:

	<u>2009</u>	<u>2008</u>
Series 2006 LMNGA Gas Project No. 1 dated August 1, 2006, due and term to August 1, 2016, bearing a variable rate of interest	<u>\$ 161,510,000</u>	<u>\$ 184,540,000</u>

As of December 31, 2009 and 2008, the interest rate swap agreement had an estimated negative fair value of \$11,205,000 and \$14,500,000, respectively. This mark-to-market valuation represents estimates of the amounts that would be paid or received for replacement transactions.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

5. BONDS PAYABLE (continued)

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, including but not limited to failure to pay, bankruptcy, and rating downgrade. Either party may terminate the swap if the other party fails to perform under the terms of the contract. If either swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. As of December 31, 2009, the counterparty was rated A1 according to Moody's and A according to Standard & Poor's and no liability for termination of the contract has therefore been recorded.

Using market-based interest rates as of December 31, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The bonds are subject to mandatory sinking fund redemption on August 1 of each bond year commencing on August 1, 2007. The minimum debt service payments over the life of the bonds are scheduled to occur as follows (in thousands):

Year Ending December 31	Principal	Interest *	Total
2010	\$ 22,730,000	\$ 6,867,609	\$ 29,597,609
2011	22,480,000	5,845,600	28,325,600
2012	22,620,000	4,827,544	27,447,544
2013	22,645,000	3,805,328	26,450,328
2014	22,950,000	2,776,713	25,726,713
2015 - 2016	48,085,000	2,379,763	50,464,763
Total	<u>\$ 161,510,000</u>	<u>\$ 26,502,557</u>	<u>\$ 188,012,557</u>

* Computed using fixed rate of interest as described above through the use of the interest rate swap.

6. LINES OF CREDIT

Effective August 1, 2006, the Authority entered into two new lines of credit with JPMorgan Chase Bank. The first line of credit is available to the Requirements Gas Fund and has a credit limit of the lesser of \$6,000,000 or 95% of the accounts receivable balance for this Fund. As of December 31, 2009 and 2008, The Authority has \$0 and \$126,000 outstanding balance on this line of credit, respectively. The second line of credit is available to the LMNGA Gas Project No. 1 Fund and has a credit limit of \$6,000,000. As of December 31, 2009 and 2008, the Authority had no outstanding balance on this line of credit. Both lines of credit bear interest at the prime rate, as determined annually by JPMorgan Chase, plus 1.5%, which was 4.75% at December 31, 2009 and 2008. Each line is secured by the accounts receivable balances of the respective Funds and originally matured on July 31, 2009, and has been extended until July 31, 2012.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

7. PARTICIPANT REIMBURSEMENT

In accordance with supply agreements executed in conjunction with LMNGA Gas Project No. 1, participating members of LMNGA Gas Project No. 1 obtain initial discounts of \$0.10 per MMBtu upon monthly purchase of natural gas. Additionally, the Authority is required to refund, if available, a portion of the cost paid by the participants subsequent to the end of the bond year at July 31. This calculation is based upon excess revenues less annual expenses, as defined in the supply agreements, on a pro-rata basis to each participant based upon the fraction of the prepaid natural gas that each participant was contractually required to purchase. For each of the years ended December 31, 2009 and 2008 the Authority has estimated approximately \$143,000 is due to each of members that is accrued and included in accounts payable and other liabilities related to participant reimbursements.

SUPPLEMENTAL INFORMATION

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
COMBINING STATEMENTS OF NET ASSETS
DECEMBER 31, 2009

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Current assets:			
Cash	\$ 196,031	\$ 6,359	\$ 202,390
Accounts receivable, net	3,352,402	4,994,097	8,346,499
Investments	-	7,268,115	7,268,115
Accrued interest receivable	-	80,995	80,995
Prepaid insurance	10,106	-	10,106
Prepaid natural gas purchases, current portion	-	21,978,723	21,978,723
Total current assets	3,558,539	34,328,289	37,886,828
Other assets:			
Investments, restricted	-	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	-	932,977	932,977
Prepaid natural gas purchases	-	130,448,617	130,448,617
Total other assets	-	132,986,752	132,986,752
Total assets	\$ 3,558,539	\$ 167,315,041	\$ 170,873,580
Current liabilities			
Accounts payable and other liabilities	\$ 3,066,126	174,659	\$ 3,240,785
Interest payable	-	3,039,754	3,039,754
Bonds payable, current portion	-	22,730,000	22,730,000
Total current liabilities	3,066,126	25,944,413	29,010,539
Long-term liabilities			
Bonds payable	-	138,780,000	138,780,000
Total liabilities	3,066,126	164,724,413	167,790,539
Net assets - unrestricted	492,413	-	492,413
Net assets - restricted bond indenture	-	2,590,628	2,590,628
Total net assets	492,413	2,590,628	3,083,041
Total liabilities and net assets	\$ 3,558,539	\$ 167,315,041	\$ 170,873,580

See accompanying independent auditors' report.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Requirements Gas</u> <u>Fund</u>	<u>LMNGA Gas Project</u> <u>No. 1 Fund</u>	<u>Total</u>
Operating revenues:			
Gas sales	\$ 21,063,440	\$ 23,670,513	\$ 44,733,953
Membership dues	605,174	-	605,174
Legal fees billed	67,242	-	67,242
Late charges	11,898	-	11,898
Less: prepay member discount	-	(711,005)	(711,005)
Total operating revenues	<u>21,747,754</u>	<u>22,959,508</u>	<u>44,707,262</u>
Operating expenses:			
Cost of natural gas	21,052,219	14,843,490	35,895,709
Purchase agent fee	403,450	-	403,450
Management fee	168,104	-	168,104
Interest expense	2,889	8,184,681	8,187,570
Legal and professional fees	68,315	12,724	81,039
Bad debt expense	74,660	-	74,660
Miscellaneous expenses	21,650	50,699	72,349
Total operating expenses	<u>21,791,287</u>	<u>23,091,594</u>	<u>44,882,881</u>
Operating income	<u>(43,533)</u>	<u>(132,086)</u>	<u>(175,619)</u>
Other revenues:			
Interest income	<u>3,066</u>	<u>701,030</u>	<u>704,096</u>
Change in net assets	<u>(40,467)</u>	<u>568,944</u>	<u>528,477</u>
Net assets, beginning of year	<u>532,880</u>	<u>2,021,684</u>	<u>2,554,564</u>
Net assets, end of year	<u>\$ 492,413</u>	<u>\$ 2,590,628</u>	<u>\$ 3,083,041</u>

See accompanying independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority), as of and for the year ended December 31, 2009, and have issued our report thereon dated May 25, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect or correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Louisiana Municipal Natural Gas Purchasing and Distribution Authority, others within the entity, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Nettville
Baton Rouge, Louisiana
May 25, 2010